

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

* * * * *

In the Matter of:

NOTICE OF MEADE COUNTY)
RURAL ELECTRIC COOPERA-) CASE NO. 8480
TION CORPORATION)

O R D E R

On March 24, 1982, Meade County Rural Electric Cooperative Corporation ("Meade County") filed an application with this Commission giving notice of an adjustment of rates to become effective April 19, 1982. The proposed rates would produce additional revenue of approximately \$757,356 annually, an increase of 8.6 percent based on normalized test year revenue. By Commission Order, the operation of the proposed tariffs was suspended until September 19, 1982, pursuant to the provisions of KRS 278.190. Based on the determination herein the revenue of Meade County will increase by \$595,269 annually, an increase of 6.6 percent.

On March 30, 1982, the Consumer Protection Division of the Attorney General's Office filed a motion to intervene in this proceeding, which was sustained. A hearing was held at the Commission's offices in Frankfort, Kentucky, on July 21, 1982.

COMMENTARY

Meade County is a consumer-owned rural electric cooperative engaged in the distribution and sale of electric energy to approximately 15,693 consumers in the Kentucky counties of Breckinridge,

Meade, Grayson, Ohio, Hardin and Hancock. Meade County purchases all of its power from Big Rivers Electric Corporation.

TEST PERIOD

Meade County proposed and the Commission has adopted the 12-month period ending January 31, 1982, as the test period for determining the reasonableness of the proposed rates. In utilizing the historical test period, the Commission has given full consideration to appropriate known and measurable changes.

VALUATION

Net Investment

Meade County proposed on page 1 of Exhibit F of its application a net investment rate base of \$11,600,820. The Commission concurs with this proposal with the following exceptions:

Meade County proposed to adjust construction work in progress ("CWIP") to include the effects of the portion of the pro forma expense adjustments charged to construction. The assumption made by Meade County in its adjustment was that construction costs would be \$21,799 greater based on the increased level of wages and salaries, workers compensation, retirement, insurance and FICA expenses charged to construction during the test year.

The objective of the Commission in establishing the year-end rate base is to determine the value of Meade County's investment in plant devoted to public use at the end of the test year. Meade County proposed no adjustment in this case to reflect the effects on CWIP of its ongoing construction program or

its additions to plant in service. Moreover, it did not propose to adjust operating revenues and expenses associated with the addition of new facilities. Therefore, in accordance with past practice, the Commission has allowed only the amount of CWIP reflected on the balance sheet at the end of the test period.

The Commission has adjusted accumulated depreciation to reflect the pro forma adjustment to depreciation expense found reasonable herein. Also, the provision for working capital has been reduced to reflect the pro forma adjustments to operation and maintenance expenses allowed herein for rate-making purposes.

Based on the Commission's adjustments, Meade County's net investment rate base for rate-making purposes is as follows:

Net Investment

Utility Plant in Service	\$ 14,603,455
Construction Work in Progress	23,532
Total Utility Plant	<u>\$ 14,626,987</u>
Add:	
Materials and Supplies	\$ 235,608
Prepayments	40,499
Working Capital	207,289
Subtotal	<u>\$ 483,396</u>
Deduct:	
Accumulated Depreciation	\$ 3,466,911
Customer Advances for Construction	26,081
Subtotal	<u>\$ 3,492,992</u>
Net Investment	<u><u>\$ 11,617,391</u></u>

Capital Structure

The Commission finds that Meade County's capital structure at the end of the test period was \$13,658,483 and consisted of

\$4,859,913 in equity and \$8,798,570 in long-term debt. In the determination of this capital structure the Commission has excluded accumulated capital credit assignments from Meade County's wholesale power supplier in the amount of \$598,301.

The Commission has given due consideration to these and other elements of value in determining the reasonableness of the proposed rate increase.

REVENUES AND EXPENSES

Meade County proposed on Exhibit E of its application several adjustments to revenues and expenses to reflect more current and anticipated operating conditions. The Commission finds the proposed adjustments are generally acceptable for rate-making purposes with the following modifications:

Purchased Power Expense

The Commission adjusted Meade County's base rates in Case No. 8076 to roll in to the base rates the fuel cost of its wholesale power supplier. Furthermore, Meade County has a provision in its fuel adjustment clause which allows total recovery of fuel costs. Therefore, the Commission has adjusted revenue by \$161,637 and purchased power expense by \$114,746 to exclude the fuel revenue and cost actually incurred during the test year.

Interest Expense

Meade County proposed an adjustment to increase interest expense on long-term debt by \$39,682 to reflect long-term debt outstanding at the end of the test period, increased interest expense on a CFC note and estimated "draw downs" for additional

long-term debt. The Commission will allow \$38,433 of the proposed amount which includes interest on all debt advanced through July 1982.

Regulatory Assessment Expense

Meade County proposed an expense adjustment of \$685 to reflect the increase in regulatory assessment expense resulting from the revenue adjustment for the proposed increase in revenue. The 1982 Kentucky General Assembly made a modification to KRS 278.150 which results in a new calculation of the annual PSC assessment. Under the revised statute the assessment for rural electric cooperatives will be based on total intrastate revenues less one-half of the purchased power costs. The net effect of this modification will result in Meade County paying its assessment on a lower base revenue figure. At this time the new assessment rate can not be determined and the exact impact of this change can not be measured. Therefore, the Commission has disallowed the adjustment proposed by Meade County to increase the assessment expense.

Depreciation Expense

Meade County proposed an adjustment to increase depreciation expense by \$53,421 to reflect the annual depreciation expense based on the level of plant in service at the end of the test year. In determining the adjustment, Meade County included depreciation expense that was charged to clearing accounts during the test year. This resulted in an overstatement of the proposed adjustment by the amount charged to clearing accounts during the

test year. Therefore, the Commission has increased Meade County's actual depreciation expense by \$12,390 and the amount charged to clearing accounts by \$783. During the test year, Meade County charged 31 percent of the depreciation expense for Account 392 to CWIP. The Commission has utilized this percentage in determining Meade County's adjusted depreciation expense.

Accrued Payroll Expense

Meade County proposed an adjustment to accrued payroll of \$7,181. The Commission is of the opinion that this adjustment should be disallowed as the wage and salary expense adjustment has been accepted. In determining the pro forma wage and salary expenses for rate-making purposes the Commission has considered the total projected wages and salaries based on the test year actual experience and the August 1981 wage increase. Therefore, it is not necessary to make an adjustment for accrued payroll expenses.

Institutional Advertising Expense

In response to a request for information regarding test year advertising expenses Meade County provided a schedule which included \$3,507 of advertising classified as institutional. In accordance with 807 KAR 5:016, the Commission has excluded this expense for rate-making purposes as it enhances the corporate image of the utility and provides no benefit to the consumer.

FICA Expense

Meade County proposed an adjustment of \$643 to FICA expense. In calculating this adjustment Meade County failed to

use the normalized level of wages and salaries. Also, an error was made in the calculation of the amount of wages over the FICA maximum used in the computation. The Commission, after correcting these errors, increased the adjustment by \$2,822 to attain a total expense of \$55,706.

Director Fees Expenses

The directors of Meade County have adopted a policy of providing compensation for actual expenses while in attendance at industry association meetings. In addition, Meade County provides a per diem allowance of \$125 for each director attending the association meetings. Considering the various other expenses which Meade County has reimbursed, the Commission is of the opinion that the \$125 per diem allowance is excessive and unreasonable. Therefore, the Commission finds that Meade County should discontinue its practice of providing this per diem allowance and has reduced directors' fees by \$4,375 to exclude the amount of this allowance during the test year.

The effect on net income of the revised pro forma adjustments is as follows:

	<u>Actual Test Period</u>	<u>Pro Forma Adjustments</u>	<u>Adjusted Test Period</u>
Operating Revenues	\$ 9,127,194	\$ (108,602)	\$ 9,018,592
Operating Expenses	8,662,654	56,525	8,719,179
Operating Income	\$ 464,540	\$ (165,127)	\$ 299,413
Interest on Long-term Debt	\$ 409,632	\$ 38,433	\$ 448,065
Other Income and (Deductions) - Net	283,291	(169,827)	113,464
Net Income	<u>\$ 338,199</u>	<u>\$ (373,387)</u>	<u>\$ (35,188)</u>

REVENUE REQUIREMENTS

The actual rate of return on Meade County's net investment rate base established herein for the test year was 4 percent. After taking into consideration the pro forma adjustments Meade County would realize a rate of return of 2.6 percent. The Commission is of the opinion that the adjusted rate of return is inadequate and a more reasonable rate of return would be 7.7 percent. In order to achieve this rate of return Meade County should be allowed to increase its annual revenue by \$595,269, which would result in a TIER of 2.25. This additional revenue will provide net income of \$560,081 which should be sufficient to meet the requirements in Meade County's mortgages securing its long-term debt.

Revenue Allocation and Rate Design

Meade County proposed to allocate the revenue increase in approximately equal percentages to all rate schedules. Meade County also proposed to add a customer charge and to reduce the number of rate block steps on schedules 1, 2 and 3, to delete the rate for flood lights on schedules 5 and 6 and to add rates for 175 watt and 400 watt metered units on schedule 5. The Commission is of the opinion that the rate designs and revenue allocations proposed by Meade County are reasonable and should be accepted.

Meade County proposed a change in the fee for collection of delinquent accounts, disconnection and reconnection on schedules 5 and 6. Meade County proposed to delete the current fee of \$3

from the tariff, resulting in a fee of \$15 as specified in Meade County's rules and regulations. The Commission is of the opinion that the proposed change is acceptable.

SUMMARY

The Commission, after consideration of the evidence of record, finds that:

(1) The rates proposed by Meade County would produce revenues in excess of those found reasonable herein and should be denied upon application of KRS 278.030.

(2) The rates in Appendix A are the fair, just and reasonable rates for Meade County and will provide net income sufficient to meet the requirements in Meade County's mortgages securing its long-term debt.

IT IS THEREFORE ORDERED that the rates in Appendix A be and they hereby are approved for service rendered on and after September 19, 1982.

IT IS FURTHER ORDERED that the rates proposed by Meade County be and they hereby are denied.

IT IS FURTHER ORDERED that Meade County shall file with this Commission within 30 days from the date of this Order its revised tariff sheets setting out the rates approved herein.

Done at Frankfort, Kentucky, this 15th day of September, 1982.

PUBLIC SERVICE COMMISSION

Marlin M. Vohs
Chairman

Katherine Randall
Vice Chairman

Len Dungan
Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE COMMISSION IN CASE NO. 8480 DATED SEPTEMBER 15, 1982

The following rates and charges are prescribed for the customers in the territory served by Meade County Rural Electric Cooperative Corporation. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the date of this Order.

Rate Schedule 1 - Residential, Farm and Non-Farm, Schools & Churches*

Customer charge - No KWH usage	\$ 4.33
First 300 KWH per month	5.600¢ per KWH
Next 700 KWH per month	4.276¢ per KWH
All Over 1,000 KWH per month	3.899¢ per KWH

Minimum Monthly Charge:

In no case shall the monthly minimum bill be less than \$4.33 per month.

Rate Schedule 2 - Commercial Rate*

Customer charge - No KWH usage	\$ 4.33
First 500 KWH per month	6.073¢ per KWH
Next 500 KWH per month	5.496¢ per KWH
All Over 1,000 KWH per month	4.758¢ per KWH

Minimum Monthly Charge:

In no case shall the monthly minimum bill be less than \$4.33 per month.

Rate Schedule 3 - General Service, 0-49 KVA*

Energy Charge

Customer charge - No KWH usage	\$ 4.33
First 500 KWH per month	5.873¢ per KWH
Next 500 KWH per month	5.367¢ per KWH
All Over 1,000 KWH per month	4.615¢ per KWH

*The monthly kilowatt hour usage shall be subject to plus or minus an adjustment per KWH determined in accordance with the "Fuel Adjustment Clause."

Demand Charge

First	10 KW of billing demand per month	No Charge
Excess above 10 KW of billing demand per month		\$ 2.36

Minimum Monthly Charges:

The minimum monthly charge shall be the highest one of the following charges as determined for the consumer in question:

1. The minimum monthly charge specified in the contract for service.
2. A charge of \$0.75 per KVA of installed transformer capacity, or \$0.75 per horsepower of connected load.
3. The applicable customer charge.

Rate Schedule 4 - Large Power Service, Over 50 KVA*

Rates:

\$ 2.36 per month per KW of billing demand plus energy charge of:

4.937¢ per KWH for the first 100 KWH used per month per KW of billing demand

4.370¢ per KWH for the next 100 KWH used per month per KW of billing demand

4.135¢ per KWH for the next 100 KWH used per month per KW of billing demand

3.991¢ per KWH for all remaining KWH used per month

Power Factor Adjustment:

The consumer shall at all times take and use power in such manner that its average power factor shall be as near one hundred percent (100%) as is consistent with good engineering practice, but in no case shall the power factor be lower than ninety percent (90%). The Distributor reserves the right to measure the power factor at any time. Should such measurements indicate that the power factor at the time of his maximum demand is less than ninety percent (90%), the demand for billing purposes shall be the demand as indicated or recorded by the demand meter multiplied by ninety percent (90%) and divided by the percent power factor. When the power factor is found to be lower than ninety percent (90%), the consumer may be required to correct its power factor to ninety percent (90%) at the consumer's expense. The demand shall be defined as ninety percent (90%) of the highest average kilovolt-amperes measured during any fifteen consecutive-minute period of the month.

*The monthly kilowatt hour usage shall be subject to plus or minus an adjustment per KWH determined in accordance with the "Fuel Adjustment Clause."

Rate Schedule 5 - Outdoor Lighting Service - Individual Consumers*

175 Watt unmetered, per month	\$ 5.82
175 Watt metered, per month	3.65
400 Watt unmetered, per month	7.55
400 Watt metered, per month	3.65

Terms of Payment:

Accounts not paid when due may incur a delinquent charge for collection, and a disconnect and reconnect fee.

Rate Schedule 6 - Street Lighting Service - Community, Municipalities, and Towns*

175 Watt, per month	\$ 5.00
400 Watt, per month	\$ 6.80

Terms of Payment:

Accounts not paid when due may incur a delinquent charge for collection, and a disconnect and reconnect fee.

*The monthly kilowatt hour usage shall be subject to plus or minus an adjustment per KWH determined in accordance with the "Fuel Adjustment Clause."